

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-12
Basic Financial Statements:	<u>Exhibit</u>
Government-Wide Financial Statements:	
Statement of Net Assets	A 13
Statement of Activities	B 14
Governmental Fund Financial Statements:	
Balance Sheet	C 15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 16
Statement of Revenues, Expenditures and Changes in Fund Balances	E 17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 18
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 19
Statement of Revenues, Expenses and Changes in Fund Net Assets	H 20
Statement of Cash Flows	I 21
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Assets and Liabilities	J 22
Notes to Basic Financial Statements	23-33
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	34
Notes to Required Supplementary Information - Budgetary Reporting	35
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Governmental Funds:	
Combining Balance Sheet	1 36
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2 37
Schedule of Changes in Student Activity Accounts	3 38
Schedule of Changes in Fiduciary Assets and Liabilities Agency Fund	4 39
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	5 40
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	41-42
Schedule of Findings	43-46

Southeast Warren Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Ron Miller	President	2006
John Burrell	Vice President	2005
Jennifer Birchette	Board Member	2005
Chris Wadle	Board Member	2007
Chris Hardy	Board Member	2006

Board of Education (After September 2005 Election)		
Chris Wadle	President (Resigned)	2007
Ron Miller	Vice President	2006
Jennifer Birchette	Board Member	2008
John Burrell	Board Member	2008
Chris Hardy	Board Member	2006
Larrie Williams	Board Member (Appointed)	2006

School Officials		
Harold Hulleman	Superintendent	2006
Julie Wilson	Board Secretary and Business Manager	2006
Ahlers & Cooney Law Firm	Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3060
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Southeast Warren Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Southeast Warren Community School District, Liberty Center, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Southeast Warren Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2006 on our consideration of Southeast Warren Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required parts of the basic financial statements, but are supplementary

Members American Institute & Iowa Society of Certified Public Accountants

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Southeast Warren Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

October 25, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Southeast Warren Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,636,469 in fiscal 2005 to \$4,806,185 in fiscal 2006, while General Fund expenditures increased from \$4,500,707 in fiscal 2005 to \$4,829,163 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$288,549 in fiscal 2005 to a balance of \$266,586 in fiscal 2006, a 7.6% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in local tax and state grant revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- The September 2005 Certified Enrollment count resulted in an increase of 4.8 students, representing an increase of less than 1% compared to the prior year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Southeast Warren Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Southeast Warren Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Southeast Warren Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Southeast Warren Community School District Annual Financial Report

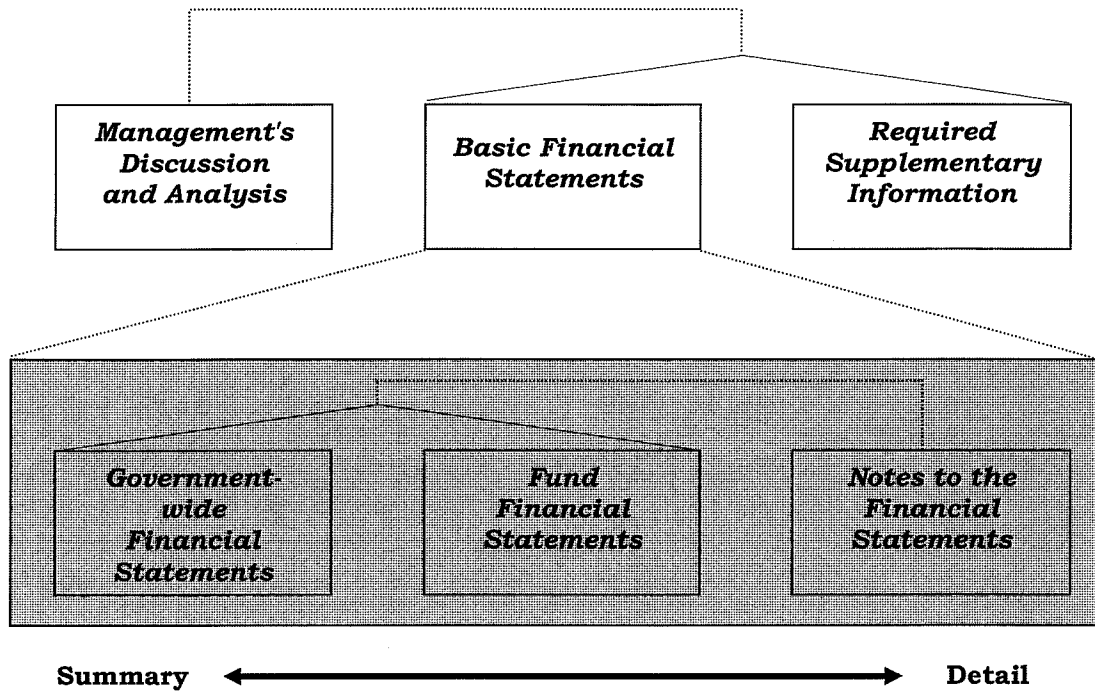


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and Day Care Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Agency Fund.

- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 4,227,936	3,968,888	144,981	140,051	4,372,917	4,108,939	6.42%
Capital assets	4,394,139	4,482,257	92,545	70,378	4,486,684	4,552,635	-1.45%
Total assets	8,622,075	8,451,145	237,526	210,429	8,859,601	8,661,574	2.29%
Long-term obligations	3,113,166	3,303,919	0	0	3,113,166	3,303,919	-5.77%
Other liabilities	3,195,079	3,030,921	21,349	14,873	3,216,428	3,045,794	5.60%
Total liabilities	6,308,245	6,334,840	21,349	14,873	6,329,594	6,349,713	-0.32%
Net assets:							
Invested in capital assets, net of related debt	1,609,821	1,387,322	92,545	70,378	1,702,366	1,457,700	16.78%
Restricted	355,848	376,501	0	0	355,848	376,501	-5.49%
Unrestricted	348,161	352,482	123,632	125,178	471,793	477,660	-1.23%
Total net assets	\$ 2,313,830	2,116,305	216,177	195,556	2,530,007	2,311,861	9.44%

The District's combined net assets increased by 9.44% or \$218,146 compared to the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased \$20,653 or 5.49% over the prior year. The decrease was primarily a result of the decrease in the Special Revenue, Management Levy fund balance due to employees taking advantage of early retirement.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$5,867 or 1.23%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 412,874	389,128	207,234	191,743	620,108	580,871	6.75%
Operating grants and contributions and restricted interest	534,075	471,495	110,567	113,337	644,642	584,832	10.23%
Capital grants and contributions and restricted interest	4,262	32,228	0	0	4,262	32,228	-86.78%
General revenues:							
Property tax	1,943,701	1,922,983	0	0	1,943,701	1,922,983	1.08%
Local option sales and service tax	272,713	259,408	0	0	272,713	259,408	5.13%
Unrestricted state grants	2,439,628	2,384,024	0	0	2,439,628	2,384,024	2.33%
Other	81,221	38,924	4,574	1,211	85,795	40,135	113.77%
Total revenues	5,688,474	5,498,190	322,375	306,291	6,010,849	5,804,481	3.56%
Program expenses:							
Governmental activities:							
Instructional	3,416,284	3,159,029	0	0	3,416,284	3,159,029	8.14%
Support services	1,560,363	1,397,358	0	0	1,560,363	1,397,358	11.67%
Non-instructional programs	0	0	301,754	267,819	301,754	267,819	12.67%
Other expenses	514,302	624,176	0	0	514,302	624,176	-17.60%
Total expenses	5,490,949	5,180,563	301,754	267,819	5,792,703	5,448,382	6.32%
Change in net assets	197,525	317,627	20,621	38,472	218,146	356,099	-38.74%
Net assets beginning of year	2,116,305	1,798,678	195,556	157,084	2,311,861	1,955,762	18.21%
Net assets end of year	\$ 2,313,830	2,116,305	216,177	195,556	2,530,007	2,311,861	9.44%

In fiscal 2006, property tax and unrestricted state grants account for 77% of the revenue from governmental activities while charges for services and operating grants and contributions account for 98.6% of the revenue from business type activities.

The District's total revenues were approximately \$6 million of which \$5.7 million was for governmental activities and \$.3 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 3.56% in revenues and a 6.32% increase in expenses. The increase in expenses was related to the increase in instructional and support services costs during the year.

Governmental Activities

Revenues for governmental activities were \$5,688,474 and expenses were \$5,490,949. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,416,284	2,642,204
Support services	1,560,363	1,558,567
Other expenses	514,302	338,967
Totals	<u>\$ 5,490,949</u>	<u>4,539,738</u>

- The cost financed by users of the District's programs was \$412,874.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$538,337.
- The net cost of governmental activities was financed with \$1,943,701 in local tax, \$272,713 in local option sales and service tax, \$2,439,628 in unrestricted state grants and \$72,998 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$322,375 and expenses were \$301,754. The District's business-type activities include the School Nutrition Fund and Day Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Southeast Warren Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$919,546, above last year's ending fund balances of \$827,358.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in the tax levy, as well as, state grants during the year, resulted in an increase in revenues. However, the increase in expenditures was enough to offset the increase in revenues ensuring the decrease of the Districts financial position.
- The Management Levy fund balance increased from \$212,716 to \$213,394, due to revenues exceeding expenditures during the year.

- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$45,208 to \$65,231. This resulted from a decrease in expenditures during the year.
- The Capital Projects fund balance increased from \$202,157 in 2005, to \$285,092 in 2006, due to revenues exceeding expenditures during the year.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$156,722 at June 30, 2005 to \$182,314 at June 30, 2006, representing an increase of approximately 16.3%. The Day Care Fund net assets decreased from \$38,834 in 2005, to \$33,863 in 2006, due to an increase in expenditures during the year.

BUDGETARY HIGHLIGHTS

The District's revenues were \$11,752 less than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$4.5 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.47% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$189,844.

The original cost of the District's capital assets was \$7,016,594. Governmental funds account for \$6,821,849 with the remainder of \$194,745 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$4,300,964 at June 30, 2005 compared to \$4,187,885 at June 30, 2006. This decrease is due to the deprecation expense taken during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30, 2006		June 30, 2005		June 30, 2006		June 30, 2005-06
Land	\$ 21,174	15,174	0	0	21,174	15,174	28.34%
Buildings	4,187,885	4,300,964	0	0	4,187,885	4,300,964	-2.70%
Improvements other than buildings	30,947	25,224	0	0	30,947	25,224	18.49%
Machinery and equipment	154,133	140,895	92,545	70,378	246,678	211,273	14.35%
Total	\$ 4,394,139	4,482,257	92,545	70,378	4,486,684	4,552,635	-1.47%

Long-Term Debt

At June 30, 2006, the District had long-term debt outstanding of \$3,113,166 in general obligation bonds, bus lease payable, early retirement and compensated absences. This represents a decrease of approximately 5.8% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding general obligation bonds payable of \$3,075,000 at June 30, 2006.

The District had total outstanding Early Retirement payable from the Special Revenue - Management Fund of \$20,774 at June 30, 2006.

The District also had total outstanding compensated absences of \$17,392 at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2006	2005	2005-06
General obligation bonds	\$ 3,075,000	3,245,000	-5.2%
Bus lease payable	0	43,705	-100.0%
Early retirement	20,774	0	100.0%
Compensated absences	17,392	15,214	14.3%
Total	<u>\$ 3,113,166</u>	<u>3,303,919</u>	<u>-5.8%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment fluctuations is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Julie Wilson, District Business Manager, Southeast Warren Community School District, 16331 Tyler Street, Liberty Center, Iowa, 50145.

BASIC FINANCIAL STATEMENTS

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP(Note 5)	\$ 792,285	0	792,285
Other	1,317,282	141,188	1,458,470
Receivables			
Property tax:			
Delinquent	40,931	0	40,931
Succeeding year	1,788,545	0	1,788,545
Income surtax	137,097	0	137,097
Accounts	1,370	0	1,370
Accrued ISCAP interest(Note 5)	5,933	0	5,933
Due from other governments	144,493	0	144,493
Inventories	0	3,793	3,793
Capital assets, net of accumulated depreciation(Note 6)	4,394,139	92,545	4,486,684
Total Assets	8,622,075	237,526	8,859,601
Liabilities			
Accounts payable	33,178	7,054	40,232
Salaries and benefits payable	537,461	12,240	549,701
Due to other governments	8,325	0	8,325
Accrued interest payable	23,786	0	23,786
ISCAP warrants payable(Note 5)	792,000	0	792,000
ISCAP accrued interest payable(Note 5)	5,552	0	5,552
ISCAP unamortized premium	5,640	0	5,640
Deferred revenue:			
Succeeding year property tax	1,788,545	0	1,788,545
Other	592	0	592
Unearned revenue	0	2,055	2,055
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds	180,000	0	180,000
Early retirement	20,774	0	20,774
Compensated absences	17,392	0	17,392
Portion due after one year:			
General obligation bonds	2,895,000	0	2,895,000
Total Liabilities	6,308,245	21,349	6,329,594
Net Assets			
Investment in capital assets, net of related debt	1,609,821	92,545	1,702,366
Restricted for:			
Salary improvement program	3,980	0	3,980
Talented and Gifted	33,730	0	33,730
Early Intervention	420	0	420
Management levy	192,620	0	192,620
Physical plant and equipment levy	65,231	0	65,231
Other special revenue purposes	59,867	0	59,867
Unrestricted	348,161	123,632	471,793
Total Net Assets	\$ 2,313,830	216,177	2,530,007

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 1,936,366	183,768	333,182	0	(1,419,416)	0	(1,419,416)
Special instruction	900,548	12,668	29,165	0	(858,715)	0	(858,715)
Other instruction	579,370	215,297	0	0	(364,073)	0	(364,073)
	<u>3,416,284</u>	<u>411,733</u>	<u>362,347</u>	<u>0</u>	<u>(2,642,204)</u>	<u>0</u>	<u>(2,642,204)</u>
Support services:							
Student services	149,252	0	0	0	(149,252)	0	(149,252)
Instructional staff services	182,279	0	0	0	(182,279)	0	(182,279)
Administration services	511,190	0	0	0	(511,190)	0	(511,190)
Operation and maintenance of plant services	444,876	0	0	0	(444,876)	0	(444,876)
Transportation services	272,766	1,141	655	0	(270,970)	0	(270,970)
	<u>1,560,363</u>	<u>1,141</u>	<u>655</u>	<u>0</u>	<u>(1,558,567)</u>	<u>0</u>	<u>(1,558,567)</u>
Other expenditures:							
Facilities acquisitions	72,316	0	0	4,262	(68,054)	0	(68,054)
Long-term debt interest	155,991	0	0	0	(155,991)	0	(155,991)
AEA flowthrough	171,073	0	171,073	0	0	0	0
Depreciation(unallocated)*	114,922	0	0	0	(114,922)	0	(114,922)
	<u>514,302</u>	<u>0</u>	<u>171,073</u>	<u>4,262</u>	<u>(338,967)</u>	<u>0</u>	<u>(338,967)</u>
Total governmental activities	5,490,949	412,874	534,075	4,262	(4,539,738)	0	(4,539,738)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	230,070	164,919	87,250	0	0	22,099	22,099
Day Care	71,684	42,315	23,317	0	0	(6,052)	(6,052)
Total business-type activities	<u>301,754</u>	<u>207,234</u>	<u>110,567</u>	<u>0</u>	<u>0</u>	<u>16,047</u>	<u>16,047</u>
Total	<u>\$ 5,792,703</u>	<u>620,108</u>	<u>644,642</u>	<u>4,262</u>	<u>(4,539,738)</u>	<u>16,047</u>	<u>(4,523,691)</u>
General Revenues:							
Property tax levied for:							
General purposes				\$ 1,589,021	0	1,589,021	
Debt service				321,496	0	321,496	
Capital outlay				33,184	0	33,184	
Local option sales and services				272,713	0	272,713	
Unrestricted state grants				2,439,628	0	2,439,628	
Unrestricted investment earnings				72,998	4,574	77,572	
Other				8,223	0	8,223	
Total general revenues				<u>4,737,263</u>	<u>4,574</u>	<u>4,741,837</u>	
Changes in net assets				197,525	20,621	218,146	
Net assets beginning of year				2,116,305	195,556	2,311,861	
Net assets end of year				<u>\$ 2,313,830</u>	<u>216,177</u>	<u>2,530,007</u>	

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments:				
ISCAP(Note 5)	\$ 792,285	0	0	792,285
Other	766,409	187,382	363,491	1,317,282
Receivables:				
Property tax:				
Delinquent	31,022	0	9,909	40,931
Succeeding year	1,332,384	0	456,161	1,788,545
Income surtax	137,097	0	0	137,097
Interfund	0	0	4,397	4,397
Accounts	1,370	0	0	1,370
Accrued ISCAP interest(Note 5)	5,933	0	0	5,933
Due from other governments	36,762	107,731	0	144,493
Total Assets	\$ 3,103,262	295,113	833,958	4,232,333
Liabilities and Fund Balances				
Liabilities:				
Interfund payable	\$ 0	4,397	0	4,397
Accounts payable	17,625	5,624	9,929	33,178
Salaries and benefits payable	537,461	0	0	537,461
Due to other governments	8,325	0	0	8,325
ISCAP warrants payable(Note 5)	792,000	0	0	792,000
ISCAP accrued interest payable(Note 5)	5,552	0	0	5,552
ISCAP unamortized premium	5,640	0	0	5,640
Deferred revenue:				
Succeeding year property tax	1,332,384	0	456,161	1,788,545
Income surtax	137,097	0	0	137,097
Other	592	0	0	592
Total liabilities	2,836,676	10,021	466,090	3,312,787
Fund balances:				
Reserved for:				
Debt service	0	0	29,376	29,376
Salary improvement program	3,980	0	0	3,980
Talented and Gifted	33,730	0	0	33,730
Early Intervention	420	0	0	420
Unreserved	228,456	285,092	338,492	852,040
Total fund balances	266,586	285,092	367,868	919,546
Total Liabilities and Fund Balances	\$ 3,103,262	295,113	833,958	4,232,333

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total fund balances of governmental funds (page 15)	\$ 919,546
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	4,394,139
Accrued interest payable in the long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(23,786)
Accounts receivable income surtax, is not yet available to finance expenditures of the current fiscal period.	137,097
Long-term liabilities, including bonds payable, early retirement and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(3,113,166)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 2,313,830</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,513,948	272,713	429,753	2,216,414
Tuition	196,436	0	0	196,436
Other	122,449	14,235	159,860	296,544
State sources	2,814,563	0	351	2,814,914
Federal sources	158,789	4,262	0	163,051
Total revenues	4,806,185	291,210	589,964	5,687,359
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,914,385	0	0	1,914,385
Special instruction	900,548	0	0	900,548
Other instruction	414,437	0	164,202	578,639
	3,229,370	0	164,202	3,393,572
Support services:				
Student services	149,252	0	0	149,252
Instructional staff services	155,767	11,057	0	166,824
Administration services	502,100	0	7,490	509,590
Operation and maintenance of plant services	410,212	0	47,904	458,116
Transportation services	211,389	58,237	19,953	289,579
	1,428,720	69,294	75,347	1,573,361
Other expenditures:				
Facilities acquisitions	0	76,297	9,585	85,882
Long-term debt:				
Principal	0	0	213,705	213,705
Interest	0	0	158,693	158,693
AEA flowthrough	171,073	0	0	171,073
	171,073	76,297	381,983	629,353
Total expenditures	4,829,163	145,591	621,532	5,596,286
Excess(deficiency) of revenues over(under) expenditures	(22,978)	145,619	(31,568)	91,073
Other financing sources(uses):				
Sale of equipment	841	0	100	941
Compensation for loss of fixed assets	174	0	0	174
Transfers in	0	0	62,684	62,684
Transfers out	0	(62,684)	0	(62,684)
Total other financing sources(uses)	1,015	(62,684)	62,784	1,115
Net change in fund balances	(21,963)	82,935	31,216	92,188
Fund balance beginning of year	288,549	202,157	336,652	827,358
Fund balance end of year	\$ 266,586	285,092	367,868	919,546

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ 92,188

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 89,103	
Depreciation expense	<u>(177,221)</u>	(88,118)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments were as follows:

213,705

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

2,702

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds, as follows:

Early retirement	(20,774)	
Compensated absences	<u>(2,178)</u>	<u>(22,952)</u>

Changes in net assets of governmental activities (page 14)

\$ 197,525

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	School Nutrition	Day Care	Total
Assets			
Cash and pooled investments	\$ 107,213	33,975	141,188
Inventories	3,793	0	3,793
Capital assets, net of accumulated depreciation(Note 6)	85,921	6,624	92,545
Total Assets	196,927	40,599	237,526
Liabilities			
Accounts payable	318	6,736	7,054
Salaries and benefits payable	12,240	0	12,240
Unearned revenue	2,055	0	2,055
Total Liabilities	14,613	6,736	21,349
Net Assets			
Investment in capital assets	85,921	6,624	92,545
Unrestricted	96,393	27,239	123,632
Total Net Assets	\$ 182,314	33,863	216,177

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	School Nutrition	Day Care	Total
Operating revenues:			
Local sources:			
Charges for services	\$ 164,919	42,315	207,234
Operating expenses:			
Non-instructional programs:			
Salaries	67,725	49,943	117,668
Benefits	22,382	9,351	31,733
Services	4,152	175	4,327
Supplies	123,947	10,694	134,641
Depreciation	11,106	1,517	12,623
Other	758	4	762
Total operating expenses	230,070	71,684	301,754
Operating loss	(65,151)	(29,369)	(94,520)
Non-operating revenues:			
State sources	3,272	0	3,272
Federal sources	83,978	23,317	107,295
Interest on investments	3,493	1,081	4,574
Total non-operating revenues	90,743	24,398	115,141
Change in net assets	25,592	(4,971)	20,621
Net assets beginning of year	156,722	38,834	195,556
Net assets end of year	\$ 182,314	33,863	216,177

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	School Nutrition	Day Care	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 162,413	0	162,413
Cash received from miscellaneous operating activities	2,301	43,362	45,663
Cash payments to employees for services	(90,178)	(59,294)	(149,472)
Cash payments to suppliers for goods or services	(111,227)	(4,439)	(115,666)
Net cash used in operating activities	(36,691)	(20,371)	(57,062)
Cash flows from non-capital financing activities:			
State grants received	3,272	0	3,272
Federal grants received	69,219	23,317	92,536
Net cash provided by non-capital financing activities	72,491	23,317	95,808
Cash flows from capital and related financing activities:			
Purchase of capital assets	(30,795)	(3,995)	(34,790)
Cash flows from investing activities:			
Interest on investments	3,493	1,081	4,574
Net increase in cash and cash equivalents	8,498	32	8,530
Cash and cash equivalents at beginning of year	98,715	33,943	132,658
Cash and cash equivalents at end of year	\$ 107,213	33,975	141,188
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (65,151)	(29,369)	(94,520)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities consumed	14,759	0	14,759
Depreciation	11,106	1,517	12,623
Decrease in inventories	2,553	0	2,553
Decrease in accounts receivable	0	1,047	1,047
Increase in accounts payable	318	6,434	6,752
Decrease in salaries and benefits payable	(71)	0	(71)
Decrease in unearned revenue	(205)	0	(205)
Net cash used in operating activities	\$ (36,691)	(20,371)	(57,062)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 107,213	33,975	141,188

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$14,759.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2006

	<u>Agency</u>
Assets	
Cash and pooled investments	<u>\$ 955</u>
Liabilities	
Accounts payable	\$ 144
Due to other groups	<u>811</u>
Total Liabilities	<u>\$ 955</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Southeast Warren Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the predominate agricultural territory in Warren and Lucas counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Southeast Warren Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Southeast Warren Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Warren and Lucas Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District reports the following fiduciary fund:

The District's fiduciary fund is the Agency Fund. The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in

nature, assets equal liabilities, and do not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fiduciary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items + are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating

revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Land improvements	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified portfolio	<u>\$ 1,337,746</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Special Revenue, Physical Plant and Equipment Levy	Capital Projects	\$ 2,496
Debt Service	Capital Projects	<u>60,188</u>
Total		<u>\$ 62,684</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Due From and Due to Other Funds

At June 30, 2006 the interfund receivables and payables consisted of the following:

Receivable Fund	Payable Fund	Amount
Debt Service	Capital Projects	<u>\$ 4,397</u>

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06B	1/26/06	1/26/07	\$ 284,991	5,775	284,000	5,423
2006-07A	6/28/06	6/28/07	507,294	158	508,000	129
			<u>\$ 792,285</u>	<u>5,933</u>	<u>792,000</u>	<u>5,552</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06A	\$ 0	215,000	215,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	4.000%	3.900%
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 173,556	34,790	13,601	194,745
Less accumulated depreciation	103,178	12,623	13,601	102,200
Business-type activities capital assets, net	<u>\$ 70,378</u>	<u>22,167</u>	<u>0</u>	<u>92,545</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 15,174	6,000	0	21,174
Total capital assets not being depreciated	15,174	6,000	0	21,174
Capital assets being depreciated:				
Buildings	5,714,856	0	0	5,714,856
Improvements other than buildings	47,482	13,566	6,000	55,048
Machinery and equipment	1,011,384	75,537	56,150	1,030,771
Total capital assets being depreciated	6,773,722	89,103	62,150	6,800,675
Less accumulated depreciation for:				
Buildings	1,413,892	113,079	0	1,526,971
Improvements other than buildings	22,258	1,843	0	24,101
Machinery and equipment	870,489	62,299	56,150	876,638
Total accumulated depreciation	2,306,639	177,221	56,150	2,427,710
Total capital assets being depreciated, net	4,467,083	(88,118)	6,000	4,372,965
Governmental activities capital assets, net	\$ 4,482,257	(82,118)	6,000	4,394,139

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 1,207
Other	731
Support services:	
Instructional staff	14,606
Administration	332
Operation and maintenance of plant	4,754
Transportation	40,669
	62,299
Unallocated depreciation	114,922
Total governmental activities depreciation expense	\$ 177,221
Business-type activities:	
Food services	\$ 11,106
Day Care	1,517
Total business-type activities depreciation expense	\$ 12,623

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	3,245,000	0	170,000	3,075,000	180,000
Bus Lease	43,705	0	43,705	0	0
Early retirement	0	20,774	0	20,774	20,774
Compensated absences	15,214	17,392	15,214	17,392	17,392
Total	\$ 3,303,919	38,166	228,919	3,113,166	218,166

Bonded Debt

Details of the District's June 30, 2006 general obligation bond indebtedness are as follows:

Year Ending June 30,	Interest Rates	Issue date October 14, 1998		
		Principal	Interest	Total
2007	5.00 % \$	180,000	142,715	322,715
2008	5.00	190,000	133,715	323,715
2009	1.30	195,000	124,215	319,215
2010	4.30	205,000	115,830	320,830
2011	4.38	215,000	107,015	322,015
2012	4.40	220,000	97,609	317,609
2013	4.50	230,000	87,929	317,929
2014	4.50	245,000	77,579	322,579
2015	4.63	255,000	66,554	321,554
2016	4.70	265,000	54,760	319,760
2017	4.80	280,000	42,305	322,305
2018	4.80	290,000	28,865	318,865
2019	4.90	305,000	14,944	319,944
Total		\$ 3,075,000	1,094,035	4,169,035

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005, 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$170,299, \$161,397 and \$151,747, respectively, equal to the required contributions for each year.

(9) Risk Management

Southeast Warren Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$171,073 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 2,709,394	211,808	2,921,202	2,835,908	2,835,908	85,294
State sources	2,814,914	3,272	2,818,186	2,872,714	2,872,714	(54,528)
Federal sources	163,051	107,295	270,346	312,864	312,864	(42,518)
Total revenues	5,687,359	322,375	6,009,734	6,021,486	6,021,486	(11,752)
Expenditures:						
Instruction	3,393,572	0	3,393,572	3,829,273	3,829,273	435,701
Support services	1,573,361	0	1,573,361	1,701,000	1,701,000	127,639
Non-instructional programs	0	301,754	301,754	468,905	468,905	167,151
Other expenditures	629,353	0	629,353	1,012,473	1,012,473	383,120
Total expenditures	5,596,286	301,754	5,898,040	7,011,651	7,011,651	1,113,611
Excess(deficiency) of revenues over(under) expenditures	91,073	20,621	111,694	(990,165)	(990,165)	(1,101,859)
Other financing sources, net	1,115	0	1,115	82,737	82,737	81,622
Excess(deficiency) of revenues over(under) expenditures	92,188	20,621	112,809	(907,428)	(907,428)	(1,020,237)
Balance beginning of year	827,358	195,556	1,022,914	1,178,124	1,178,124	(155,210)
Balance end of year	\$ 919,546	216,177	1,135,723	270,696	270,696	865,027

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	
Assets						
Cash and pooled investments	\$ 211,625	62,551	71,714	345,890	17,601	363,491
Receivables:						
Property tax:						
Current year delinquent	1,769	0	762	2,531	7,378	9,909
Succeeding year	110,000	0	33,046	143,046	313,115	456,161
Interfund	0	0	0	0	4,397	4,397
Total Assets	\$ 323,394	62,551	105,522	491,467	342,491	833,958
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 0	2,684	7,245	9,929	0	9,929
Deferred revenue:						
Succeeding year property tax	110,000	0	33,046	143,046	313,115	456,161
Total Liabilities	110,000	2,684	40,291	152,975	313,115	466,090
Fund balances:						
Reserved:						
Debt service	0	0	0	0	29,376	29,376
Unreserved	213,394	59,867	65,231	338,492	0	338,492
Total fund balances	213,394	59,867	65,231	338,492	29,376	367,868
Liabilities and Fund Balances	\$ 323,394	62,551	105,522	491,467	342,491	833,958

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 75,073	0	33,184	108,257	321,496	429,753
Other	10,990	145,049	1,694	157,733	2,127	159,860
State sources	62	0	27	89	262	351
TOTAL REVENUES	86,125	145,049	34,905	266,079	323,885	589,964
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	18,689	145,513	0	164,202	0	164,202
Support services:						
Administration services	7,090	0	0	7,090	400	7,490
Operation and maintenance of plant services	40,659	0	7,245	47,904	0	47,904
Transportation services	19,009	296	648	19,953	0	19,953
Other expenditures:						
Facilities acquisitions	0	0	9,585	9,585	0	9,585
Long-term debt:						
Principal	0	0	0	0	213,705	213,705
Interest	0	0	0	0	158,693	158,693
TOTAL EXPENDITURES	85,447	145,809	17,478	248,734	372,798	621,532
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	678	(760)	17,427	17,345	(48,913)	(31,568)
OTHER FINANCING SOURCES:						
Transfers in	0	0	2,496	2,496	60,188	62,684
Sale of equipment	0	0	100	100	0	100
Total other financing sources	0	0	2,596	2,596	60,188	62,784
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	678	(760)	20,023	19,941	11,275	31,216
FUND BALANCE BEGINNING OF YEAR	212,716	60,627	45,208	318,551	18,101	336,652
FUND BALANCE END OF YEAR	\$ 213,394	59,867	65,231	338,492	29,376	367,868

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Academic Bowl	\$ 97	0	76	21
Art Club	567	410	854	123
Athletic Boosters	772	0	0	772
Band Trip-HS	0	1,730	1,003	727
Band Trip-JH	0	842	0	842
Baseball	(2,276)	4,306	2,030	0
Baseball clinic	749	0	749	0
Basketball-Boys	3,196	3,119	2,409	3,906
Basketball-Girls	1,626	3,198	2,851	1,973
Cheerleaders	960	200	189	971
Class of 05	26	0	26	0
Class of 06	779	0	244	535
Class of 07	55	5,375	5,039	391
Class of 08	25	0	0	25
Cross Country	147	506	653	0
Dance Team	1,502	10,841	11,256	1,087
Dance Team-JH	123	0	0	123
Drama	438	3,699	3,959	178
Elem Yearbook	565	1,644	1,306	903
ELP Trips	330	557	337	550
Est. Comm. Pride	531	296	296	531
FBLA	0	56	56	0
FCCLA	0	2,925	2,925	0
FFA	5,160	15,606	19,384	1,382
Football	7,362	9,427	8,535	8,254
General Athletics	1,997	5,750	7,747	0
Golf	1,590	0	863	727
Instrumental Music	1,523	687	2,170	40
I-Music Flags	(26)	7,857	7,313	518
Interest Income	0	78	(29)	107
Intermed. Activities	783	257	263	777
Activity Support	23,000	0	0	23,000
JEL/SADD	0	450	0	450
JH Cheer	342	0	0	342
JR-SR High Activities	0	931	905	26
Nat. Honor Society	196	318	97	417
Primary Activities	824	0	0	824
Softball	903	5,694	5,367	1,230
Spanish Club	984	0	0	984
Speech	25	0	0	25
SH Student Council	3,246	1,493	2,537	2,202
Tournaments	1,363	2,039	925	2,477
Track	0	650	650	0
Utility	696	6	167	535
Vocal Music	(491)	274	(217)	0
Vocal-NY Trip	380	34,390	34,770	0
Volleyball	985	3,410	4,393	2
Weightlifting	0	1,682	0	1,682
Wrestling	334	3,267	3,426	175
Yearbook	(761)	11,079	10,285	33
Total	\$ 60,627	145,049	145,809	59,867

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 YEAR ENDED JUNE 30, 2006

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 1,866	65,035	65,946	955
Total assets	<u>\$ 1,866</u>	<u>65,035</u>	<u>65,946</u>	<u>955</u>
Liabilities				
Accounts payable	\$ 0	144	0	144
Due to other groups	1,866	64,891	65,946	811
Total liabilities	<u>\$ 1,866</u>	<u>65,035</u>	<u>65,946</u>	<u>955</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 2,216,414	2,184,579	1,935,298	1,860,042
Tuition	196,436	192,380	150,073	118,681
Other	296,544	232,777	246,347	172,538
State sources	2,814,914	2,724,681	2,605,662	2,606,882
Federal sources	163,051	163,066	180,250	238,415
Total	<u>\$ 5,687,359</u>	<u>5,497,483</u>	<u>5,117,630</u>	<u>4,996,558</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 1,914,385	1,824,019	1,896,490	1,944,708
Special instruction	900,548	811,582	751,279	721,634
Other instruction	578,639	523,212	442,153	364,831
Support services:				
Student services	149,252	146,397	89,499	84,660
Instructional staff services	166,824	169,643	143,206	147,385
Administration services	509,590	461,651	441,472	563,480
Operation and maintenance of plant services	458,116	404,320	403,734	419,086
Transportation services	289,579	191,592	214,966	193,180
Other expenditures:				
Facilities acquisitions	85,882	184,592	6,069	87,771
Long-term debt:				
Principal	213,705	160,000	155,000	200,771
Interest	158,693	159,615	167,265	177,092
AEA flow-through	171,073	167,064	165,576	173,712
Total	<u>\$ 5,596,286</u>	<u>5,203,687</u>	<u>4,876,709</u>	<u>5,078,310</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3060
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Southeast Warren Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Southeast Warren Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 25, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southeast Warren Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeast Warren Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Southeast Warren Community School District and other parties to Southeast Warren Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Southeast Warren Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

October 25, 2006

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- I-B-06 Supporting Documents for Meal Reimbursements - It was noted during the audit, an instance of a meal reimbursement which lacked a detailed receipt for supporting documentation.

Recommendation - The District has a policy in place for credit card usage, which states that the users need to provide detailed receipts for purchases made. The District should review procedures in place with personnel to ensure the proper detailed documentation will be available with paid meal reimbursements.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

- I-C-06 Commodity Pricing - We noted during the audit that the commodity food listing was not priced out correctly to the state value guide requirements at the end of the year.

Recommendation - The District should review their inventory procedures to ensure that the commodity food is priced out correctly at the end of each fiscal year.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

- I-D-06 Student Activity Fund - We noted during our audit that the Student Activity fund included an Activity Support, a Utility and an Interest account.

Recommendation - The receipts and expenditures made from the Activity Support and the Utility account appear to be administratively run. These accounts should be allocated out among the other student activity accounts. The interest account should be allocated out among the accounts on an annual basis.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

SOUTHEAST WARREN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District disbursements for the year ended June 30, 2006 did not exceed the amount budgeted.
- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Kurt Cronbunch, Bus Driver Owns K's Electric Service	Services	\$12,392
Gene Wedley, Coach Owns Lacona Hardware	Supplies	\$1,159
Tina Schneider, Teacher Spouse owns construction firm	Services	\$1,870

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the spouse of the teacher does not appear to represent a conflict of interest.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-J-06 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - We have contacted the bank and will work on resolving the issue.

Conclusion - Response accepted.